

**MONTANA BOARD OF HOUSING**

Best Western Great Northern Inn

835 Great Northern Blvd

Helena MT 59601

December 14, 2006

**ROLL CALL OF BOARD**

**MEMBERS:** Bob Thomas, Chairman (Present)  
Judy Glendenning, Vice Chairman (Present)  
J.P. Crowley, Secretary (Present)  
Susan Moyer (Excused)  
Audrey Black Eagle (Absent)  
Jeff Rupp (Present)  
Betsy Scanlin (Present)

**STAFF:** Bruce Brensdal, Executive Director  
Mat Rude, Multifamily Program Manager  
Gerald Watne, Multifamily Program Officer  
Chuck Nemec, Accounting & Finance Manager  
Vicki Bauer, Assistant Accounting & Finance Manager  
Nancy Leifer, Homeownership Program Manager  
Charles Brown, Homeownership Program Officer  
Diana Hall, Administrative Assistant

**COUNSEL:** Pat Melby, Luxan and Murfitt  
John Wagner, Kutak Rock

**UNDERWRITERS:** Peter Nolden, UBS  
Gordon Hoven, Piper Jaffray  
Karl Zwick, George L Baum, & Co.

**OTHERS:** John Bohlinger, Lt. Governor  
Jackie Williams, Ex Assist, Lt Gov  
Lisa Alves, MGIC  
Rosa Dalia-Hernandez, MGIC  
Deborah Chorlton, USDA Rural Development  
Melony Bruhn, Helena Habitat for Humanity  
Jennifer Erdahl, Legislative Audit Division

**CALL MEETING TO ORDER**

Chairman Bob Thomas called the meeting to order at 8:30 a.m.

### **APPROVAL OF MINUTES**

J P Crowley moved to approve the November 17 Board meeting minutes. Betsy Scanlin seconded the motion. The Chairman asked for public comments. The motion passed unanimously.

### **INTRODUCTIONS AND PUBLIC COMMENTS**

The Chairman asked the Board, staff, and guests to introduce themselves and asked for any public comments. Lt. Governor, John Bolinger presented Bob Thomas with a certificate and an engraved serving tray to honor his 16 years of service to the State of Montana and the Montana Board of Housing, as a member of the Board and 14 years as Chairman of the Board.

### **FINANCE PROGRAM**

Chuck Nemec introduced Jennifer Erdahl of the Legislative Audit Division. She summarized the procedure for this year's financial compliance audit. They found no errors and therefore gave a clean opinion. Bruce said the Audit report was presented to the Audit Committee on Tuesday and they had no comments or concerns. Judy Glendenning commended the staff for an excellent job!

### **MULTIFAMILY PROGRAM**

Mat Rude informed the Board that the deadline for the 2007 Low-Income Housing Tax Credits is in February.

Mat presented a slide show of a project in Ashland called Valley Apartments. It is a Rural Development project built in 1985. Deborah Chorlton of Rural Development said the project needs an on-site manager. A company has made an offer to purchase the 6-plex apartment for \$67,000 and is requesting a loan from the Revolving Loan Account. The project scored 93 with a minimum threshold of 90. Staff expressed concerns about vacancies, rents, and management. The Board members voiced that it should financially cash flow with repairs and some of the purchaser's funds should be used so the risk is not all Montana Board of Housing (MBOH). Mat said he will continue to talk to the prospective owner.

### **HOMEOWNERSHIP PROGRAM**

Nancy Leifer reported that 76 loans are committed for approximately \$9 million in the Bridge Program in anticipation of the next bond issue. Conventional interest rates in the state have fluctuated over the last month and locally is 5.875%. The MBOH rate currently is 6.0%. Staff recommended lowering the MBOH rate to 5 ¾ with the setaside rate at 5.25%. Peter Nolden presented a chart showing a comparison of MBOH rates in comparison to the 10-year Treasury Bonds and 30-year Treasury Bonds. All rates have trended down. If bonds were sold today, the bond rate would be around 4.625%. Peter noted that the board will be taking the new bond issue out for pricing in mid-January, and that leaving the board's interest rate unchanged would help minimize the risk of having the cost of funds from the new issue be at or more than the rate at which the board committed loans. Peter outlined the proposal for the new bond issue with a calendar of scheduled events. Judy Glendenning moved to reduce the interest rate to 5¾% with the setaside rate at 5.25%. Jeff Rupp seconded the motion. The Chairman asked for public comments. The motion failed for lack of support with Judy Glendenning voting in favor of the motion.

Nancy reported that a new IRS tax provision allows for an exception for all Veterans to the First-Time Homebuyer rule for bond funds issued in the year 2007. Judy Glendenning moved to expand the bond issue to include Veterans who are not a first-time homebuyer for funds from bond issues in 2007 to become effective when the bill is signed. J P Crowley seconded the motion. The Chairman asked for public comments. The motion passed unanimously.

Nancy handed out a brochure on Montana's Indian Country which gives a background on all the Indian tribes in Montana.

Nancy provided a housing profile of statistics of MBOH loans for the past two years. It shows 168 loans to homeowners under 80% of median income. She said that there have been 8 Mortgage Credit Certificate loans purchased for \$720,000. The delinquency report shows the lenders are doing a good job. The REO status report shows the properties owned by MBOH.

Nancy gave a recap of the 35% land to value policy. Statistics from the Census and Information bureau show that from 2000-2005, the incorporated areas of the 15 fastest growing counties in the state increased 6.22%, while the unincorporated areas grew by 0.8%. This is a reversal of the pattern of the previous 20 years, in which the largest share of population growth occurred outside of the incorporated areas. The result of this population pressure is that lot prices in incorporated areas have increased considerably. Now, the lowest cost housing near incorporated areas is likely to be mobile homes on one-acre lots that are not on public water and sewer. Jeannene attended the Kalispell home and garden show, and did an informal poll that indicated that many people were driving 60 miles one-way to work, because they couldn't find affordable housing in or close to Kalispell and the Flathead Valley.

Pat Melby, legal counsel for MBOH, said we may be dealing with the law of unintended consequences. MBOH is restricted by our enabling legislation to provide housing for low to moderate income people. The goal to prevent sprawl is laudable and should be kept in the mind of Board members, however, they should be careful that the goal does not override the true mission to provide low to moderate housing. There is a problem when a noble goal starts making our primary mission take a back seat. If, in some areas, people can't afford to buy a house in an incorporated area or an area that has public water and sewer and we can't serve them because the 35% policy rules out other housing, this is a concern to Pat.

The original policy set 35% as the limit to avoid having people use MBOH funds to finance larger parcels of land for speculation. The more recent problem with the original rule was that it didn't allow MBOH to finance homes on city lots in those areas where the lot prices had risen substantially. The current 35% policy expanded the availability of homes for purchase by allowing the value of the lot to exceed 35%, and stating the conditions under which MBOH was willing to go beyond 35%. The cost of land in the high-priced areas itself limits how much land an MBOH borrower could purchase. MBOH has other rules affecting land that regulate the size of the lot (no more than 30 acres) and prohibit the land from being subdivided.

Deborah Chorlton commented that Rural Development (RD) has a regulatory rule that the land should not exceed 30% of the value of the property, but they waive that requirement constantly based on established criteria.

Two requests for additional information came out of the discussion. It would be very helpful to get some statistics or data that show what is happening with MBOH loans, because it appears that the demand for MBOH loans has continued. Getting useful statistics is very difficult because data isn't collected on the basis of incorporated vs. unincorporated areas. Zip codes span both, so that doesn't work. MBOH doesn't have data about the loans that aren't getting made, because lenders are not bringing them to the board in the first place. Lenders do not want to put their borrowers at risk of spending \$900 to \$1200 on the necessary appraisals, etc, and then have them turned down for this type of loan. It would be good to find a way to get some statistics on people who are affected by the 35% rule. Second, Jeff asked for more legal counsel because we are supposed to be doing a public purpose and Pat is concerned about us not following it. He requested that Pat do a little more research on points that all should be aware of and concerned about.

Nancy announce that two private mortgage insurance providers have submitted applications indicating that they will meet the approved standards for private mortgage insurance coverage and rates, and are interested in providing conventional mortgage insurance for our home loan program. One of them is Republic Insurance and the other is MGIC. Nancy introduced two representatives from MGIC who summarized their work on housing insurance in Montana. Nancy will review additional documentation from both on the borrower coverage, and assuming that it verifies the coverage standards, both will be able to provide mortgage insurance on MBOH whole loans.

The Setaside Program has a pool of first mortgage money used to support those programs around the state that provide down-payment assistance. It is being referred to as the mortgage down-payment pool, even though the pool does not provide the down-payment assistance; it only provides the first mortgage that goes with the down-payment assistance. There are several setasides that expire at the end of the month that qualify for this pool and Nancy indicated they will be rolled into the mortgage down-payment pool. These organizations agreed to being rolled into the pool. Nancy noted that MBOH requires them to be approved by the HOME Program and appear before the Board once a year to give a report on the program. Betsy encouraged staff to rename the program. Then, Betsy Scanlin moved to extend the HUD 184 program for one year. J P Crowley seconded the motion. The Chairman asked for public comments. The motion passed unanimously.

Nancy introduced Melanie Bruhn of the Habitat for Humanity program in Helena. Melanie gave an update on Habitat programs around the state and requested an extension for one year to December 31, 2007. Judy Glendenning move to extend the Habitat for Humanity Program for one year. Betsy Scanlin seconded the motion. The Chairman asked for public comments. The motion passed unanimously.

Nancy updated the Board on the Red Lodge GAP financing project. A loan was made to the Red Lodge Economic Develop Corporation to purchase 6 lots to use as model project to put in modular housing. The City Council just approved the terms that will be used for an equity share with the borrowers, clearing the way for the modular housing project to proceed. In addition, Red Lodge also has the Mountain View Mobil Home Park as a potential project. A buyer is interested in purchasing commercial footage along the highway and selling the rest of the land to support the rest of the mobile homes as a tax write-off in a year. MBOH is considering a New Hampshire model for co-operative ownership of the park by the residents. The GAP financing program could be used to purchase an option on the remaining land for an initial cost of \$25,000 with monthly cost and eventually costing \$65,000 for the year. The proposed funds in the legislature for mobile home decommissioning and replacement would be helpful for this project because about half of the trailers

are pre-1976 trailers. Betsy praised MBOH and the staff for their outstanding help in bringing together a team of partners to resolve problems.

Nancy gave a preliminary outline of a possible foreclosure prevention loan for the next board meeting. An MBOH borrower had a sewer line out in the street collapse and their insurance does not cover the expenses. Therefore, staff may request a loan to help them as foreclosure prevention.

Pat Melby reported back to the Board on the question of what types of loans the board can make under the enabling legislation. MBOH can make temporary, short term mortgage loans to a housing sponsor. One purpose would be for land acquisition by the housing sponsor. Mortgage loan is defined as an interest bearing loan that is secured by a mortgage on the land, so there has to be some interest on the loan. There are not any restrictions on the length of the loan. Pat said that basically, the MBOH Board has a responsibility to be good stewards of the funds. So, you have to balance the mission to serve the low-income people with being a good steward of your funds. If you invest in a loan with real low interest, the value of that money will diminish over a period of years. At the same time you are completing your mission of providing service. There is a balance, so a loan with a reasonable payoff period is okay with a housing sponsor so the funds can be recycled.

The mobile home project in Red Lodge would be a potential project for a loan. Nancy and John reported that HFA's in New Hampshire and Vermont played a key role in getting mobile home cooperatives financed in those states. One key question is the source of mortgage insurance, which determines which funds MBOH can use. Jeff commented that as a Board member, he would like to have a say in spending any of the special reserve and raspberry funds. Jeff said he is familiar with HOME and CDBG funds, but the \$3 million for decommissioning and replacing mobile homes has not been appropriated yet. Obtaining the appropriation for these funds would be critical for the Red Lodge mobile home project. Deb said RD has a model that allows co-operatives \$2,000 cash, can look at it for permanent financing. Nancy noted that a proposal for the Red Lodge project and a loan from MBOH for the option to purchase the park would likely be on the agenda for the next meeting.

## **EXECUTIVE DIRECTOR**

Bruce Brensdal said we are moving forward with our budget for the Legislature. There are \$3 million in the Governor's budget and Bruce will make presentation before the committee. Betsy reported that the meeting with the Governor's office was efficient and brief. They wanted to make sure that the Governor's office did not oppose proposed legislation. Also, they wanted to confirm that staff could be available for question. Jeff was interested in the relationship with staff and promoting a policy that is not in agreement with what the Governor was doing. J P said the general outcome was that staff could offer information, but not advocate support. Bruce said staff would facilitate the Board as much as possible. The role of Board for supporting the Housing Montana Fund was not clear cut. Betsy felt that they could advocate the need for it and see where the funding options were. Betsy moved to adopt and support the Housing Montana proposal. Jeff seconded the motion. The Chairman asked for public comments. The motion passed unanimously. Jeff moved to support HB2 for the Mobile Home renovation and decommission through a combination of resources. J P Crowley seconded the motion. The Chairman asked for public comments. The motion passed unanimously.

Chairman Thomas asked for nomination for Chairman of the Board. Betsy asked to wait until the

new Board members come aboard. Bruce said it was not fair for a new Board member to come in January and have to vote on the new bond issue without any background. Bob Thomas said he would retire when they replace him.

Bruce mentioned the Regional Summit will be June 4-6 in Medora, so he encouraged having the June Board meeting in Eastern Montana. Mat also requested the March or April meeting be changed due the tax credit allocation deadline. Bruce will try to keep the meetings consistently on Mondays when they are in Helena.

The next meeting is scheduled for January 16 in Helena. Future meetings are tentatively scheduled for February 12, March 12, and April 2 in Helena. Meetings are also planned for May 7 and June 6.

The meeting adjourned at 11.45 p.m.

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J. P. Crowley, Secretary

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Date